



# County of Los Angeles CHIEF EXECUTIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION  
LOS ANGELES, CALIFORNIA 90012  
(213) 974-1101  
<http://ceo.lacounty.gov>

WILLIAM T FUJIOKA  
Chief Executive Officer

May 6, 2008

The Honorable Board of Supervisors  
County of Los Angeles  
383 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, CA 90012

Dear Supervisors:

**DEPARTMENT OF HUMAN RESOURCES:  
APPROVE THE AMENDMENT TO EXTEND CONTRACT NO. 74576  
FOR ADMINISTRATIVE SERVICES FOR CAFETERIA AND  
NON-CAFETERIA BENEFIT PLANS  
(ALL DISTRICTS) (3 VOTES)**

**CIO RECOMMENDATION: APPROVE (X) APPROVE WITH MODIFICATION ( )  
DISAPPROVE ( )**

**SUBJECT**

The Department of Human Resources (DHR) currently contracts with Affiliated Computer Services, Inc., and Buck Consultants, LLC (ACS/Buck) to provide third party administration of employee benefits for cafeteria and non-cafeteria benefit plans. This Board letter requests amending the existing contract as follows: 1) extend the term from December 31, 2008 to December 31, 2011, with two (2) one-year options; 2) replace an annual fixed rate increase included in per unit pricing with the Standard County Contract provision for cost of living adjustments (COLA), if any; and 3) make a one-time adjustment to bring the employee roll count and transaction count to current February 2008 levels.

**JOINT RECOMMENDATION WITH CHIEF INFORMATION OFFICE THAT YOUR BOARD:**

1. Approve and instruct the Chair to sign the attached Amendment to extend Contract No. 74576, with ACS/Buck as the Third Party Administrator (TPA) to provide administrative services for cafeteria and non-cafeteria benefit plans, for a term of three (3) years effective January 1, 2009 through December 31, 2011, with the Total Maximum Contract Sum not to exceed \$12,308,000 including applicable cost of living

Board of Supervisors  
GLORIA MOLINA  
First District

YVONNE B. BURKE  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

adjustments. The Contract will be paid on a per unit basis, based on the actual employee benefit enrollment population each month, capped at a 3% annual increase. The cost will be partially financed by administrative fees paid by employees participating in the plans and the remaining cost will be financed through billings to the Departments. Sufficient funding will be included in the FY 2008-09 Budget.

2. Authorize the Director of Personnel to extend the Contract for up to two (2) one-year periods, at no increase in per unit cost except for applicable COLAs, and to negotiate and execute appropriate amendments, after approval as to form by County Counsel.

#### **PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION**

The existing contract with ACS/Buck ends on December 31, 2008. The recommended action would allow ACS/Buck to continue providing TPA services for four (4) cafeteria benefit plans and multiple non-cafeteria benefit programs for approximately 100,000 employees and their dependents, approximating a total of 225,000 individual records.

The County has used a TPA since 1990 to provide administrative services for the flexible benefit plan enrollments, non-cafeteria plan enrollments, and administration and payment of health and dependent care spending account (flexible spending accounts) claims. As a result of an industry-wide solicitation, ACS/Buck was selected as the highest rated bidder and your Board approved the current five-year contract on August 12, 2003.

ACS/Buck provides a highly customized, accurate Information Technology (IT) recordkeeping system that operates at maximum efficiency. The system includes web and telephone benefit enrollments, changes in enrollment resulting from life events, billing and accounting systems, electronic data imaging of supporting documents, COBRA notification, and Flexible Spending Account administration. Services include staffing expertise in employee benefits and hands-on experience with our complex employee benefit programs.

A new payroll and personnel system that interfaces with ACS/Buck will be implemented in 2010. With approval of the contract extension, TPA services will continue through the implementation of the new payroll and personnel system and will avoid any interruptions of benefits.

The following outlines the reasons to extend the contract:

Competing major human resource (HR) system projects: The County does not have enough knowledgeable personnel to commit to two major parallel human resource system implementations – replacement of ACS/Buck and implementation of a new Countywide Human Resource System (eHR). The County is in the process of a project to replace its

timekeeping, payroll, and personnel systems (eHR project). Implementation of the payroll module is scheduled for 2010, and timekeeping and personnel are scheduled for implementation in 2012. The eHR project has required the County to commit a large number of staff and resources over the next four years. A large portion of the County personnel committed to implementing the eHR system will be the same personnel required to work on replacement of the ACS/Buck system.

Senior staff resources from DHR, the Chief Executive Office (CEO), and the Auditor-Controller (AC) with the necessary institutional knowledge are limited; there are not enough knowledgeable staff to stretch between two major system implementations, the ACS/Buck replacement and eHR.

Replicating costly existing interfaces to legacy HR systems and eHR: ACS/Buck currently interfaces with the existing legacy payroll system, Countywide Payroll (CWPAY), which is complicated and has taken several years to achieve the level of system integration that is now experienced. Any new TPA vendor would have to design, develop, and implement a new software program to interface with CWPAY for 2009. After a year, the new TPA would have to design, develop, and implement an entirely new software program to interface with the new payroll system, eHR. This second implementation of a payroll interface would require the County to pay twice for this extremely expensive process.

To minimize the potential problems with CWPAY and the transition to the new system, we recommend along with the AC and the Chief Information Office (CIO) that the ACS/Buck system stay in place during the implementation phase of eHR. The two (2) option years, if needed, ensure that the transition to the new payroll system in 2010 and the new timekeeping and personnel system in 2012 will be minimally disrupted, diminishing problems that can occur with dual IT system installations. Once the system is up, tested, and stable, a competitive market solicitation will be initiated.

Development of new system infrastructure: The County's complex benefit plans require a robust Interactive Voice Response and web-based infrastructure that meet our unique requirements and large plan size. The level of customization of day-to-day services that ACS/Buck has developed in tandem with the County would be difficult to obtain elsewhere without extensive cost and time.

New vendor learning curve: The initial implementation of systems of this magnitude requires a long learning curve to successfully overcome any debugging issues and manual correction of initial error rates. Based on past experience with ACS/Buck, a minimum of two (2) years is anticipated to obtain ease of operation and effectiveness in the payroll system. ACS/Buck would provide a stable component during the implementation phase of the new payroll system.

Potential benefit changes: Based on past experience, complex benefit changes may be implemented in 2010 resulting from union negotiations in 2009. ACS/Buck has experience with current benefits and business rules to ensure there is no interruption of benefits.

Pricing: ACS/Buck has agreed to guarantee the 2008 current per unit rates throughout the term of the contract extension except for the addition of the Board-approved Standard County Contract provision for COLA increases. The unit prices of the original contract increased year after year.

The current contract is paid on a per unit basis, based on actual employee benefit enrollment count, with a 3% annual cap. If the employee count and volume of transactions exceed 3% annually, ACS/Buck cannot charge more than the contract amount. If the employee count decreases over the term of the contract, the amount paid to ACS/Buck will decrease on a dollar-for-dollar basis. This provision continues with the extension.

One-Time Adjustment: The first year of the extension (2009) includes a one-time adjustment to bring the employee roll count and transaction count to reflect the current volume based on February 2008 actual counts. This adjustment is necessary because the volume of transactions and employee counts increased significantly due to unanticipated Board-approved benefit enhancements that mostly resulted from labor negotiations. These include:

- Effective January 1, 2005, domestic partners eligibility for COBRA;
- Effective January 1, 2007, Temporary/Part Time Employee insurance eligibility reduced from 32 hours to 20 hours per week, increasing the number of enrollments and COBRA transactions; and
- Effective January 1, 2008, addition of a County contribution to the dependent care spending accounts.

ACS/Buck experienced revenue losses in 2007 due to the increase in volume of transactions. The one-time adjustment becomes the baseline for 2009. After the one-time adjustment, annual employee counts are capped at 3% annually for the entire term of the contract extension.

### **Implementation of Strategic Plan Goals**

The recommended action supports the County's Strategic Plan Goal #2: Workforce Excellence and Goal #3: Organizational Effectiveness by promoting the well-being of employees and their families by administering comprehensive employee benefits.

### **FISCAL IMPACT/FINANCING**

The three-year Total Maximum Contract Sum for the extension is \$12,308,000. If the optional years are exercised, the estimated five-year Total Maximum Contract Sum is \$21,794,000. Funding for this contract will be included in the 2008-09 Proposed Budget and funding for future years will be requested in future year budgets.

The costs for both cafeteria and non-cafeteria plan administrative services are partly offset by administrative fees paid by employees participating in the plans. Employees pay these fees through payroll deduction. The remaining costs are offset by billings to the Departments.

### **FACTS AND PROVISIONS/LEGAL REQUIREMENTS**

The contract with ACS/Buck to provide TPA services for cafeteria and non-cafeteria benefit plans was approved by your Board on August 12, 2003 for the period from August 12, 2003 through December 31, 2008. With your Board's approval, the Contract will continue until December 31, 2011 or until December 31, 2013, if the two (2) one-year options are exercised.

The ACS/Buck system has brought state-of-the-art web-based technology to the County that continues to stay in the forefront of benefits technology. The County's complex benefits plans require a custom infrastructure to support unique features and its large plan size and scope. The level of customization of day-to-day services that ACS/Buck has developed in tandem with the County would be difficult to obtain elsewhere without extensive cost and time.

ACS/Buck has met the County's varied and evolving daily needs of benefits administration and has performed exceptionally well during annual enrollment, when calls on the web and telephone enrollment system can reach as high as 17,000 a day. ACS/Buck has been quick to execute design modifications needed to implement new benefits when necessary. Many system changes were done by ACS/Buck at no additional cost to the County. ACS/Buck continues to perform competently in handling benefit transactions and complex benefit recordkeeping. Because of their exceptional services, there has been no interruption of benefits for County employees. The Contractor is in compliance with all Board, CEO, and County Counsel requirements.

The County's CIO concurs with DHR's recommendation (Attached). The attached 1<sup>st</sup> amendment has been reviewed and approved as to form by County Counsel.

**IMPACT ON CURRENT SERVICES (OR PROJECTS)**

The recommended actions will allow ACS/Buck to continue providing administrative services for County employee benefits that are critical for County employees' well-being and work performance during the new payroll and personnel system implementation. The County can expect to continue to receive effective administrative services with highly accurate and timely record keeping for its cafeteria and non-cafeteria benefits plans, and effective web and telephone enrollments.

**CONCLUSION**

Upon approval and execution of the Amendment, instruct the Executive Officer of the Board, to return one adopted stamped Board letter and two signed originals of the Amendment to the Department of Human Resources. It is requested that the Executive Officer notify DHR's Employee Benefits division at (213) 738-2192 when the documents are available.

Respectfully submitted,



WILLIAM T FUJIOKA  
Chief Executive Officer

Reviewed by:



RICH SANCHEZ  
Acting Chief Information Officer

WTF:ES  
GS:JY:cg

Attachment (2)

c: County Counsel  
Auditor-Controller  
Director of Personnel  
Executive Officer, Board of Supervisors  
DCEO, Operations

## AMENDMENT NO. 4

### CONTRACT BETWEEN THE COUNTY OF LOS ANGELES AND AFFILIATED COMPUTER SYSTEMS, INC. AND BUCK CONSULTANTS, LLC FOR ADMINISTRATIVE SERVICES FOR CAFETERIA AND NON-CAFETERIA BENEFIT PLANS

**THIS AMENDMENT NO. 4** is made and entered into by and between the County of Los Angeles ("COUNTY") and Affiliated Computer Systems, Inc. and Buck Consultants, LLC (jointly and severally, "CONTRACTOR").

**WHEREAS**, on August 12, 2003, COUNTY and CONTRACTOR entered into an agreement, further identified as County Contract No. 74576, for the provision of administrative services for cafeteria and non-cafeteria benefit plans, and any amendments thereto (hereinafter collectively referred to as "Contract"); and

**WHEREAS**, on December 31, 2008, County Contract No. 74576 will expire and the COUNTY and CONTRACTOR desire to extend their current contract term.

**NOW, THEREFORE**, the parties mutually agree to amend the Contract as follows:

**I. Pursuant to Section 4.0 (Changes and Amendments), Subsection 4.4, the following amendments shall be made to the Contract:**

**A. Section 7.0 - TERM**, Subsection 7.1 is amended to read as follows:

7.1 The term of this Contract shall commence on the Effective Date, and shall continue unless otherwise terminated as provided in this Contract. This Contract shall be extended from January 1, 2009 for three years through and including December 31, 2011. At the discretion of the DOP, the COUNTY shall have the option to extend the Contract term for up to two (2) additional one-year periods, for a maximum total extension term of five (5) years, from January 1, 2009 through December 31, 2013. Each such option year shall be exercised by an amendment executed by the DOP and CONTRACTOR.

**B. Section 8.0 - CONTRACT SUM**, Subsection 8.1 is amended and Subsection 8.7 is added to read as follows:

8.1 The Maximum Contract Sum under the terms of this Contract shall be the total monetary amount payable by COUNTY to CONTRACTOR for provision of services specified herein in accordance with Exhibit B (Fee Schedule), and shall not exceed Twelve Million Three Hundred Eight Thousand Dollars (\$12,308,000) for the three year term, including an estimated 3%

74576  
Supplement No. 3

COLA for each year. If the two one-year options are exercised, the total Maximum Contract Sum shall not exceed Twenty One Million Seven Hundred Ninety Four Thousand Dollars (**\$21,794,000**), including an estimated 3% COLA for each contract year. In addition, CONTRACTOR acknowledges that the amounts payable by COUNTY to CONTRACTOR on a monthly basis for the services are based on COUNTY's actual number of participants for the services in the applicable month multiplied by the applicable unit rates as set forth on Exhibit B (Fee Schedule) for the applicable Contract year. The assumed volumes specified in Exhibit B (Fee Schedule) for 2009 shall be a one-time adjustment based on the February 2008 actual roll count. IVR Script Development and Web Screen Development fees incurred with respect to each annual enrollment will be billed as they are incurred. CONTRACTOR expressly acknowledges and agrees, however, that, in no event, is COUNTY obligated to pay any amount in excess of the "Maximum Annual Cap" amount per Contract Year set forth on Exhibit B (Fee Schedule), which amount is based on a three percent (3%) increase above the "Estimated Annual Costs", plus any applicable annual increase Cost of Living Adjustment (COLA) set forth on Exhibit B (Fee Schedule).

- 8.7 Cost of Living Adjustment/Consumer Price Index: The Contract costs may be adjusted annually based on the increase or decrease in the U.S. Department of Labor, Bureau of Labor Statistics' Consumer Price Index for the Los Angeles-Riverside-Orange County Area (CPI) for the most recently published percentage change for the 12-month period preceding the contract anniversary date, which shall be the effective date for any cost of living adjustments, subject to the Maximum Contract Sum as set forth in Exhibit B (Fee Schedule). However, any increase shall not exceed the general salary movement granted to COUNTY employees as determined by the Chief Executive Office as of each July 1 for the prior 12-month period. Furthermore, should fiscal circumstances ultimately prevent the Board from approving any increase in COUNTY employee salaries, no cost of living adjustments will be granted.

- C. **Exhibit B (Fee Schedule) shall be deleted in its entirety effective January 1, 2009, and replaced with the attached Exhibit B (Fee Schedule).**

- II. **Except for the changes set forth herein, all other terms and conditions of the Contract shall remain in full force and effect.**



IN WITNESS WHEREOF, the CONTRACTOR has duly executed this Amendment No. 4 to County Contract No. 74576, and the County of Los Angeles, by order of its Board of Supervisors, has caused this Amendment to be executed on its behalf by the Chair of said Board and attested by the Executive Officer-Clerk of the Board of Supervisors thereof.

COUNTY OF LOS ANGELES

BUCK CONSULTANTS, LLC.

By: *Gerome B. Bunte*  
Chair, Board of Supervisors

By: *Harold A. Loeb*  
Harold A. Loeb  
Principal and Consulting Actuary

AFFILIATED COMPUTER SYSTEMS, INC.

By: *T. J. Burtin*  
Name: *T. J. Burtin*  
Title: *Chief Operating Officer, ACS Inc*  
Date: *4/2/08*

ATTEST:

SACHI A. HAMAI  
Executive Officer-Clerk  
Of the Board of Supervisors



I hereby certify that pursuant to Section 25103 of the Government Code, delivery of this document has been made.

SACHI A. HAMAI  
Executive Officer  
Clerk of the Board of Supervisors

By: *Sachi A. Hamai*  
Deputy

By: *Sachi A. Hamai*  
Deputy

APPROVED AS TO FORM:  
RAYMOND G. FORTNER, JR.  
COUNTY COUNSEL

By: *Stephen R. Morris*  
Stephen R. Morris  
Principal Deputy County Counsel

H:\BuckEx\AmendNo.4-3.26.08

**ADOPTED**  
BOARD OF SUPERVISORS  
COUNTY OF LOS ANGELES

# 31

MAY 06 2008

*Sachi A. Hamai*  
SACHI A. HAMAI  
EXECUTIVE OFFICER

74576 Supplement No. 3

## EXHIBIT B

## FEE SCHEDULE

## Per Participant and Transaction Rates

	<u>Assumed Volume***</u>	<u>2009*</u>	<u>2010*</u>	<u>2011*</u>	<u>Annual Total</u>	<u>Three-Year Total</u>	<u>Optional 2012*</u>	<u>Optional 2013*</u>	<u>Annual Total</u>	<u>Five-Year Total</u>
<b>Monthly Processing Fees</b>										
Flex/Megaflex	12,822	\$ 2.05	\$ 2.05	\$ 2.05	\$ 315,421		\$ 2.05	\$ 2.05	\$ 315,421	
Choices	35,191	\$ 2.15	\$ 2.15	\$ 2.15	\$ 907,928		\$ 2.15	\$ 2.15	\$ 907,928	
Options	48,565	\$ 2.15	\$ 2.15	\$ 2.15	\$ 1,252,977		\$ 2.15	\$ 2.15	\$ 1,252,977	
Temps/Part-time	2,907	\$ 2.15	\$ 2.15	\$ 2.15	\$ 75,001		\$ 2.15	\$ 2.15	\$ 75,001	
Employee Direct Pay Billing	1,925	\$ 4.97	\$ 4.97	\$ 4.97	\$ 114,807		\$ 4.97	\$ 4.97	\$ 114,807	
COBRA Notification	2,500	\$ 6.62	\$ 6.62	\$ 6.62	\$ 198,600		\$ 6.62	\$ 6.62	\$ 198,600	
HIPAA Certification	-	\$ 5.52	\$ 5.52	\$ 5.52	\$ -		\$ 5.52	\$ 5.52	\$ -	
Subtotal					\$ 2,864,734	\$ 8,594,201			\$ 2,864,734	\$ 14,323,668
<b>Monthly Spending Account Administration*</b>										
Flex/Megaflex (annual rates)	5,377	\$ 0.55	\$ 0.55	\$ 0.55	\$ 2,957		\$ 0.55	\$ 0.55	\$ 2,957	
Checks issued/mailed	3,585	\$ 3.42	\$ 3.42	\$ 3.42	\$ 147,115		\$ 3.42	\$ 3.42	\$ 147,115	
Choices (annual rates)	5,420	\$ 0.55	\$ 0.55	\$ 0.55	\$ 2,981		\$ 0.55	\$ 0.55	\$ 2,981	
Checks issued/mailed	3,613	\$ 3.42	\$ 3.42	\$ 3.42	\$ 148,291		\$ 3.42	\$ 3.42	\$ 148,291	
Options (annual rates)	7,022	\$ 0.55	\$ 0.55	\$ 0.55	\$ 3,862		\$ 0.55	\$ 0.55	\$ 3,862	
Checks issued/mailed	4,681	\$ 3.42	\$ 3.42	\$ 3.42	\$ 192,122		\$ 3.42	\$ 3.42	\$ 192,122	
Subtotal					\$ 497,328	\$ 1,491,985			\$ 497,328	\$ 2,486,641
<b>Annual Enrollment*</b>										
Flex/Megaflex	12,822	\$ 0.78	\$ 0.78	\$ 0.78	\$ 10,001		\$ 0.78	\$ 0.78	\$ 10,001	
Choices	35,191	\$ 0.73	\$ 0.73	\$ 0.73	\$ 25,689		\$ 0.73	\$ 0.73	\$ 25,689	
Options	48,565	\$ 0.54	\$ 0.54	\$ 0.54	\$ 26,225		\$ 0.54	\$ 0.54	\$ 26,225	
Temps/Part-time	2,907	\$ 0.78	\$ 0.78	\$ 0.78	\$ 2,267		\$ 0.78	\$ 0.78	\$ 2,267	
Decision Planner Worksheet	99,485	\$ 1.12	\$ 1.12	\$ 1.12	\$ 111,423		\$ 1.12	\$ 1.12	\$ 111,423	
IVR Script Development**	1 ann. unit	\$ 16,557.19	\$ 16,557.19	\$ 16,557.19	\$ 16,557		\$ 16,557.19	\$ 16,557.19	\$ 16,557	
Web Screen Development**	1 ann. unit	\$ 18,764.83	\$ 18,764.83	\$ 18,764.83	\$ 18,765		\$ 18,764.83	\$ 18,764.83	\$ 18,765	
Confirmation/Default Notice	99,485	\$ 0.54	\$ 0.54	\$ 0.54	\$ 53,722		\$ 0.54	\$ 0.54	\$ 53,722	
Mail Spending Account Kit	17,819	\$ 0.83	\$ 0.83	\$ 0.83	\$ 14,790		\$ 0.83	\$ 0.83	\$ 14,790	
Mail Spending Account Book	2,500	\$ 0.83	\$ 0.83	\$ 0.83	\$ 2,075		\$ 0.83	\$ 0.83	\$ 2,075	
Subtotal					\$ 281,515	\$ 844,545			\$ 281,515	\$ 1,407,575
Estimated Annual Costs		\$ 3,644,000	\$ 3,866,000	\$ 4,098,000	\$ 3,643,577	\$ 11,608,000	\$ 4,344,000	\$ 4,605,000	\$ 3,643,577	\$ 20,557,000
Maximum Annual Cap (Including 3% annual cap based on volume)		3,753,000	3,979,000	4,217,000		11,949,000	4,471,000	4,739,000		\$ 21,159,000
Maximum Annual Contract Sum (Including 3% estimated COLA increase)		3,866,000	4,098,000	4,344,000		12,308,000	4,605,000	4,881,000		21,794,000
<b>MAXIMUM CONTRACT SUM</b>					<b>\$ 12,308,000</b>					<b>\$ 21,794,000</b>

\*All rates shown are monthly except:

Spending Account Checks Issued/mailed are per transaction. Volumes shown are assumed to be monthly.

Spending Account Administration for Flex/Megaflex, Choices and Options are shown as annual rates.

Annual enrollment rates for Flex/Megaflex, Choices, Options, Temps, and Part-time and Confirmation/Default Notices and

Decision Planner Worksheet are charged one time during annual enrollment.

Mailing of Spending Account Kit and Account Book is per kit or account mailed.

Rates are increased annually by applicable Cost of Living Adjustments (COLAs).

Fees not charged on a per transaction basis include:

\*\* IVR Script Development for annual enrollment.

\*\* Web Screen Development for annual enrollment.

\*\*\* One time adjustment to increase Assumed Volumes to the February 2008 actual roll count.

## EXHIBIT B

**County of Los Angeles  
Benefits Administration  
Annual Fees**

		2009	2010	2011	2012	2013	CONTRACT COSTS
Monthly Processing Fees	\$	2,864,734	\$ 3,039,000	\$ 3,224,000	\$ 3,420,000	\$3,628,000	
Spending Account Administration	\$	497,328	\$ 528,000	\$ 560,000	\$ 594,000	\$ 630,000	
Annual Enrollment	\$	281,515	\$ 299,000	\$ 317,000	\$ 336,000	\$ 356,000	
<b>Estimated Annual Costs</b>	<b>\$</b>	<b>3,644,000</b>	<b>\$ 3,866,000</b>	<b>\$ 4,098,000</b>	<b>\$ 4,344,000</b>	<b>\$4,605,000</b>	<b>\$ 20,557,000</b>
<b>Maximum Annual Cap</b>	<b>\$</b>	<b>3,753,000</b>	<b>\$ 3,979,000</b>	<b>\$ 4,217,000</b>	<b>\$ 4,471,000</b>	<b>\$4,739,000</b>	<b>\$ 21,159,000</b>
<b>Maximum Annual Contract Sum</b>	<b>\$</b>	<b>3,866,000</b>	<b>\$ 4,098,000</b>	<b>\$ 4,344,000</b>	<b>\$ 4,605,000</b>	<b>\$4,881,000</b>	<b>\$ 21,794,000</b>
<b>MAXIMUM CONTRACT SUM</b>							<b>\$ 21,794,000</b>

Maximum Annual Cap includes 3% annual cap

Maximum Annual Contract Sum includes 3% estimated COLA increase

# CIO ANALYSIS

## AMENDMENT NO. 4 CONTRACT NO. 74576 FOR ADMINISTRATIVE SERVICES FOR CAFETERIA AND NON-CAFETERIA BENEFIT PLANS

**CIO RECOMMENDATION:**    ☒ **APPROVE**                      ☐ **APPROVE WITH MODIFICATION**  
                                          ☐ **DISAPPROVE**

**Contract Type:**

☐ **New Contract**                      ☒ **Contract Amendment**                      ☐ **Contract Extension**  
☐ **Sole Source Contract**                      ☐ **Hardware Acquisition**                      ☐ **Other**

**New/Revised Contract Term:**    **Base Term:** 3 Yrs                      **# of Option Yrs** 2

**Contract Components:**

☒ **Software**                      ☐ **Hardware**                      ☐ **Telecommunications**  
☐ **Professional Services**

**Project Executive Sponsor:** Michael J. Henry, Director of Personnel, DHR

**Budget Information :**

Y-T-D Contract Expenditures	\$ 0
Requested Contract Amount	\$ 21,794,000
Aggregate Contract Amount	\$ 21,794,000

**Project Background:**

Yes	No	Question
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Is this project legislatively mandated?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Is this project subvented? If yes, what percentage is offset?
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Is this project/application applicable to (shared use or interfaced) other departments? Yes, CWTAPPS and CWPAY.

**Strategic Alignment:**

Yes	No	Question
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Is this project in alignment with the County of Los Angeles Strategic Plan?
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Is this project consistent with the currently approved Department Business Automation Plan?
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Does the project's technology solution comply with County of Los Angeles IT Directions Document?
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Does the project technology solution comply with preferred County of Los Angeles IT Standards?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	This contract and/or project and its milestone deliverables must be entered into the Information Technology Tracking System (ITTS).

### **Project/Contract Description:**

The Department of Human Resources (DHR) is requesting Board approval of Amendment No. 4 to Contract No. 74576 with Affiliated Computer Services, Inc., and Buck Consultants, LLC, (ACS/Buck). This Amendment will:

- Extend the contract term for three years effective December 31, 2008, with two one-year options;
- Replace an annual fixed rate increase included in per unit pricing with the Standard County Contract provision for cost of living adjustments (COLA); and
- Make a one-time adjustment to bring the employee roll count and transaction count to current February 2008 levels.

The estimated total maximum contract sum, assuming the optional years are exercised, is \$21,794,000.

### **Background:**

ACS/Buck, formerly known as Mellon Financial Corporation, provides third party administration of the County's four cafeteria benefit plans and multiple non-cafeteria benefit programs for approximately 100,000 employees and their dependents for a total of 225,000 individual records. ACS/Buck was selected through a competitive RFP process in 2003. The Board approved the current five-year contract on August 12, 2003, and it will expire on December 31, 2008. The total maximum contract sum over the five-year term is \$14,940,640.

ACS/Buck provides a highly customized, accurate Information Technology (IT) recordkeeping system for the County's employee benefit enrollment and administration. The system includes web and telephone benefit enrollments, changes in enrollment resulting from life events, billing and accounting systems, electronic data imaging of supporting documents, COBRA notification, and Flexible Spending Account (FSA) administration. Services provided by the contractor include staffing expertise in employee benefits and hands-on experience with the County's complex employee benefit programs.

### **Project Justification/Benefits:**

The following outlines the reasons given to amend the existing contract:

- **Competing major human resource (HR) system projects.** The County does not have adequate knowledgeable personnel to implement two major parallel human resource system implementations – replacement of ACS/Buck and implementation of eHR (timekeeping, payroll and personnel systems).
- **Replicating costly existing interfaces to legacy HR systems and eHR.** ACS/Buck currently interfaces with the existing legacy HR systems. Any new third party administrator (TPA) vendor would have to design, develop, and implement a new software program to interface with CWPAY for 2009 and new eHR payroll system, a year later.

- **Development of new system infrastructure.** ACS/Buck provides a scalable and highly customized Interactive Voice Response (IVR) and web-based infrastructure to support County benefit plans. This infrastructure coupled with the day-to-day services that ACS/Buck provides have been developed jointly with the County and would be difficult to obtain elsewhere without extensive cost and time.
- **New vendor learning curve.** Based on past experience with debugging issues and manual correction of initial error rates, DHR is estimating a minimum of two years to obtain ease of operation and effectiveness in the payroll system. ACS/Buck would provide a stable component during the implementation phase of the new payroll system.
- **Anticipated benefit changes.** DHR is projecting complex benefit changes to be implemented in 2010 resulting from union negotiations in 2009. ACS/Buck has experience with current benefits and business rules to ensure that there is no interruption of benefits.

**Project Metrics:**

The contract contains Service Level Agreements (SLAs)/Performance Requirements Summary (PRS) for continued service, including ongoing monitoring and inspection. These include uninterrupted IVR, Web systems, adequate system capacity, call center operations and distribution of forms/notifications/confirmations during the annual enrollment period.

**Impact On Service Delivery Or Department Operations, If Proposal Is Not Approved:**

Disruption of the current delivery model would impact annual enrollment administration of the County's four cafeteria benefit plans and multiple non-cafeteria benefit programs for approximately 100,000 employees and their dependents, a total of 225,000 individual records.

**Alternatives Considered:**

No alternatives were considered for the reasons discussed above. DHR has found ACS/Buck to be a highly responsive vendor. ACS/Buck has successfully met the County's daily needs of benefits administration and has performed exceptionally well during annual enrollment. In addition, ACS/Buck has been quick to execute design modifications needed to implement new benefits when necessary.

**Project Risks:**

Project risks are minimal. ACS/Buck has met the County's varied and evolving daily needs of benefits administration and has performed exceptionally well during annual enrollment without problems. Moreover, ACS/Buck's experience with current County benefits and business rules will mitigate any potential interruptions to benefits administration caused by projected benefit changes.

**Risk Mitigation Measures:**

None.

**Financial Analysis:**

The estimated three-year total maximum contract sum for the extension is \$12.3 million. If the optional years are exercised, the estimated five-year total contract sum is \$21.79 million.

The costs for cafeteria and non-cafeteria plans' administrative services are partly offset by administrative fees paid by employees participating in the plans. Employees pay these fees through payroll deduction. Funding for this contract will be included in the 2008-2009 Proposed Budget and funding for future years will be requested in future year budgets.

**CIO Concerns:**

None.

**CIO Recommendations:**

My Office supports this action and recommends approval by the Board.

**CIO APPROVAL**

Date Received: 3/25/08

Prepared by: Gene Franklin, Sr.

Date: 4/3/2008

Approved: [Signature]

Date: 4/10/2008